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Summary:

Rockville, Maryland; General Obligation

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Credit Profile		
US$6.605 mil GO rfdg bnds ser 2014A due 03/15/2024		
Long Term Rating	AAA/Stable	New
Rockville GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Rockville, Md.'s series 2014A general obligation (GO) refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the city's existing GO debt based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect.

The city's full-faith-and-credit pledge secures the GO refunding bonds. Officials intend to use series 2014A bond proceeds to current refund the city's series 2004 GO bonds.

The rating reflects our opinion of the following factors for the city, including its:

- Very strong economy with a mature property tax base that benefits from its easy access to the diverse and vibrant Washington–Arlington–Alexandria metropolitan statistical area (MSA) economy with strong-to-very-strong wealth and income, coupled with historically low unemployment;
- Very strong budgetary flexibility with fiscal 2013 audited available reserves at 60.1% of general fund expenditures, including capital fund reserves we understand management could use for operating expenses, if necessary, with board approval;
- Strong budgetary performance with a diverse revenue stream, led by property taxes that generate 52.3% of general fund revenue;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Very strong management conditions with "strong" financial policies and practices under our Financial Management Assessment (FMA) methodology; and
- Adequate debt and contingent liabilities due to moderate carrying charges, moderate net debt, and average amortization.

Very strong economy

The 13.6-square-mile Rockville is a mature, affluent suburban community just 12 miles outside the Washington Beltway, where it serves as Montgomery County's seat. Despite Rockville's maturity, population growth continues due to the city's commitment to construct more dense mixed-use developments. The current population estimate of 62,867 is a 33% increase since the 2000 U.S. Census and a 39% increase since the 1990 U.S. Census. Three metropolitan rail stops -- Shady Grove, Rockville, and Twinbrook -- in, and around, the city provide Rockville residents with easy access to the greater Washington metropolitan area. Rockville is a residential community and an employment and economic center, as well as a net importer of jobs. The local employment base, centering on government and high technology, continues to grow. A major portion of the Interstate 270 high-technology business corridor is within Rockville's corporate city limits. The city's planning department estimates Rockville is currently home to about 75,000 jobs, well in excess of the city's population.

Leading city private employers include:

- Lockheed Martin Information Systems (2,000 employees);
- Westat Inc. (2,000), a research organization;
- Booz Allen Hamilton (1,282);
- Quest Software (784), information technology; and
- BAE Systems Inc. (650), information technology.

The deep and diverse local and regional economies, coupled with a highly educated workforce, contribute to, what we regard as, historically high wealth and income and low unemployment. We consider projected per capita effective buying income a very strong 155.8% of the nation's level. County unemployment, which has historically been well below state and national rates, was, in our view, a low 5.4% in 2012.

Property tax base growth has slowed due to the economic downturn, and it actually experienced modest decreases over the past three years. Assessed value decreased by 2.2% since fiscal 2010 to $11.7 billion for fiscal 2013, or a market value of $186,842 per capita, which we consider extremely strong.

Nevertheless, despite the modest decrease, economic development and redevelopment continues. Rockville expects to add to the tax base in fiscal years 2014 and 2015. Management indicates there are ample residential and nonresidential projects in the pipeline, including nearly 3,000 residential units and more than 1.5 million square feet of commercial, industrial, and retail space scheduled for completion by fiscal 2018; this reflects Rockville's continued desirability. Several larger projects that we believe will likely continue to add to the tax base include:

- Choice Hotels International's corporate headquarters, scheduled for completion in April 2013;
- Duball, a multiuse site that includes a 140-room hotel in Town Center that broke ground in November 2012; and
- Hungerford Retail LLC, a two-story building with office and retail space that should be constructed within the next 12 months.

Very strong budget flexibility

In our opinion, budget flexibility remains very strong with Rockville maintaining very strong available general fund reserves over the past few fiscal years, as well as reserves held in the capital projects fund that management could use, if necessary, for operational expenses with board approval. Audited fiscal 2013 results indicate available reserves, including unrestricted capital projects fund reserves, were $32.7 million, or 60.1% of operating expenses. Rockville's fund balance policy calls for the maintenance of at least 15% of annual general fund revenue, a level the city has been well above historically. We understand officials do not plan to spend down reserves in fiscal 2014.

Strong budgetary performance

We view overall budgetary performance as strong. For fiscal 2013, Rockville generated a $4.1 million surplus due primarily to better-than-expected property and income taxes, as well as, what we regard as, conservative budgeting; according to officials, expenditures came in nearly $1.9 million less than the final amended budget. In addition, the total governmental funds operating result for fiscal 2013, after adjusting for the $4.6 million of current refunding bonds, was a $971,000 surplus. Revenue is diverse; property taxes, the primary revenue source, generate 52% of general fund revenue.

For fiscal 2014, Rockville increased the general fund budget slightly to $69 million, including a 2.8% increase in property taxes and, in our view, a conservative 0.5% decrease in income taxes. Management indicates it does not expect a material change in reserves at fiscal year-end 2014.

Very strong liquidity

What we consider very strong liquidity supports Rockville's finances with a total-government-available-cash ratio of 64% of total governmental fund expenditures. We believe Rockville has strong access to external liquidity.

Very strong management

We view Rockville's management conditions as very strong with "strong" financial management practices under our FMA methodology, indicating practices are strong, well embedded, and likely sustainable.

Adequate debt and contingent liabilities profile

In our opinion, Rockville's debt and contingent liabilities profile is adequate with a total-governmental-funds-debt-service ratio of 8.5% of total governmental funds expenditures and a net-direct-debt ratio of 113.4% of total governmental funds revenue. Overall net debt is, in our view, low at just 2.7% of market value. We consider debt amortization above average with officials planning to retire roughly 61.9% over 10 years. The city's 2014-2018 capital improvement plan is limited in terms of proposed new debt issuances, which we understand total just $8 million over the next five years.

Rockville provides employee pension and retirement benefits. The city's contribution to the pension plan equals the annual required contribution, which totals roughly $4.3 million, or roughly 5.6% of governmental expenditures. The pension plan's unfunded actuarial accrued liability (UAAL) was $22.7 million; the plan was 75.6% funded as of April 1, 2013. Rockville also maintains other postemployment benefits (OPEB), which it pays for through pay-as-you-go financing. The city contributed $773,620 to OPEB in fiscal 2013, or less than 1% of governmental expenditures. As of July 1, 2013, the OPEB UAAL was $3.3 million with a funded ratio of 55.1%.

Very Strong Institutional Framework

We consider the Institutional Framework score for Maryland cities very strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Rockville's very strong economic profile, including strong wealth and income and its participation in the Washington-Arlington-Alexandria MSA. In addition, we believe Rockville's strong management team, including strong policies and practices, will likely help it maintain, what we consider, its very strong budgetary flexibility and liquidity, as well as at least adequate budgetary performance. We believe the lack of significant additional debt needs provides further rating stability. Therefore, we do not expect to change the rating within the outlook's two-year period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Maryland Local Governments

Ratings Detail (As Of March 7, 2014)		
Rockville GO bnds		
Long Term Rating	AAA/Stable	Affirmed
Rockville GO rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Rockville GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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